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# Fuel Focus

*Understanding Gasoline Markets in Canada  
and Economic Drivers Influencing Prices*

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Canada

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## National Overview

### Canadian Retail Gasoline Prices Increased 1 Cent per Litre from Last Week

For the week ending September 2, 2014, the average Canadian retail gasoline price was \$1.33 per litre. This is an increase of less than 1 cent per litre from the previous week and a decrease of 1 cent per litre from a year ago.

Diesel fuel prices rose by nearly 1 cent per litre to \$1.30 per litre from the previous week. This is an increase of 1 cent per litre compared to the same period last year. Furnace oil prices declined from the previous week by 0.4 cent to \$1.24 per litre, and are 3 cents per litre higher compared to the same period last year.

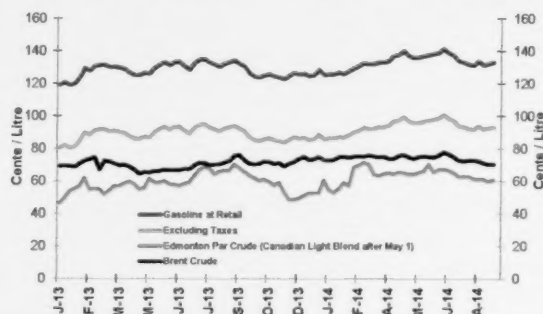
## Recent Developments

- U.S. Gasoline Prices Falling:** The U.S. average retail price for regular gasoline was \$3.45/gallon (\$US 0.91 per litre) on August 25, 2014, the lowest price on the Monday before Labor Day since 2010. The average price at the pump is now 25 cents/gallon lower than it was at the end of June. A lower North Sea Brent crude oil price is the main driver of the decline in the gasoline price. (Source: U.S. Energy Information Administration, *This Week in Petroleum* <http://www.eia.gov/oog/info/twip/twip.asp>)

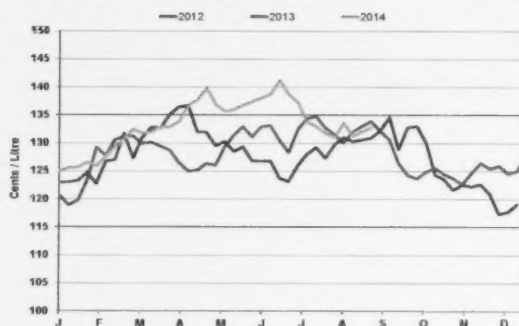
Note: Canadian retail pump prices registered \$1.32 per litre on August 26, 2014, which is nearly the same level for the same time period in 2012 and 2013. Since June 2014, average Canadian gasoline prices have fluctuated downward by 9 cents per litre from a high of \$1.41 per litre.

- World Gasoline Demand to Fall 4% by 2035:** According to Navigant Research, world gasoline consumption in road transportation will rise from 362 billion gallons in 2014 to 367 billion in 2021, then fall to 348 billion in 2035. The decline reflects moves by governments to address the costs of oil dependency in transportation in terms of energy security, environmental security, and economic stability. The subsidization of alternative fuels and alternative fuel vehicles, the implementation of biofuel mandates, and tightening of fuel economy requirements for new vehicles are making an impact on global oil demand. (Source: Ontario Ministry of Energy, Fuels and Vehicles Report)
- Gasoline Consumption Increased by 2%:** Canadians consumed 18 billion litres of gasoline in the first five months of 2014 or 2% more than the same period last year. In the same period, diesel fuel sales also increased by 2% to 12 billion litres, while furnace oil sales declined by 4% to 1.3 billion litres. (Statistics Canada, Cansim Table 134-0004)

**Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)**



**Figure 2: Weekly Regular Gasoline Prices**



## Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-09-02	Previous Week	Last Year
Gasoline	132.8	+0.6	-1.1
Diesel	129.8	+0.6	+1.3
Furnace Oil	124.2	-0.4	+3.3

Source: NRCan

## Natural Gas Prices for Vehicles

2014-09-02	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.9	79.1	82.0
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

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## Retail Gasoline Overview

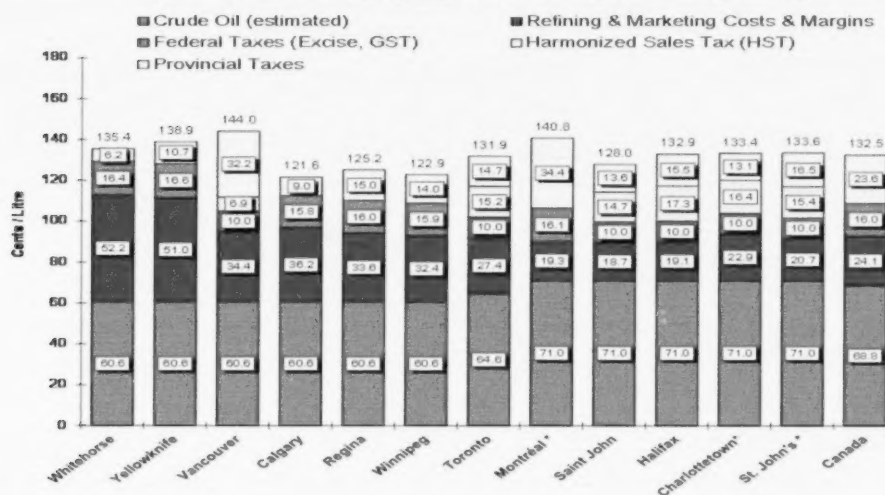
The average Canadian pump price in selected cities for the **four-week average** ending September 2, 2014, was \$1.33 per litre, an increase of less than 1 cent per litre from the last report on August 22, 2014. This represents a 0.2 cent-per-litre increase compared to the same period in 2013.

The **four-week average** crude oil price decreased by 1 cent per litre to 69 cents per litre compared to two weeks ago. This represents a 0.4 cent-per-litre decrease compared to the same time last year.

On average retail gasoline prices in most western centres—Vancouver to Winnipeg—increased by 1 cent per litre when compared to the previous report and ranged from \$1.22 to \$1.44 per litre. Prices in eastern cities—Toronto to St. John's—declined by less than 1 cent per litre and ranged from \$1.28 to \$1.41 cents per litre.

At the national level, refining and marketing costs and margins increased 1.5 cents per litre to 24 cents per litre. This represents an increase of less than 1 cent per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (August 12 to September 2, 2014)**



Source: NRCan

\* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

### Why are Gasoline Prices Volatile?

Changes in global crude oil prices cause most of the volatility and fluctuations in gasoline prices. Crude oil prices are affected by many factors, such as geopolitical events in the Middle East and North Africa, changes in drilling and investment in crude oil, and productive capacity, weather, and other factors.

Following the Western Accord with Alberta, British Columbia and Saskatchewan, and subsequent market deregulation and the Free Trade agreement with the U.S., the Government of Canada does not control crude oil prices. It does, however, monitor competitive conditions and practices in petroleum markets to ensure that markets are providing competitive prices to Canadians, and to ensure there is no anti-competitive behaviour, such as price fixing or collusion. Provincial governments have jurisdiction over retail prices of petroleum products.

Canada is committed to a market-based approach to oil and fuel prices. This means that the government relies upon competitive markets to determine prices. Overall, the market-based approach helps ensure that the amount of fuel available and the amount needed by consumers and businesses are balanced at a competitive price.



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## Wholesale Gasoline Prices

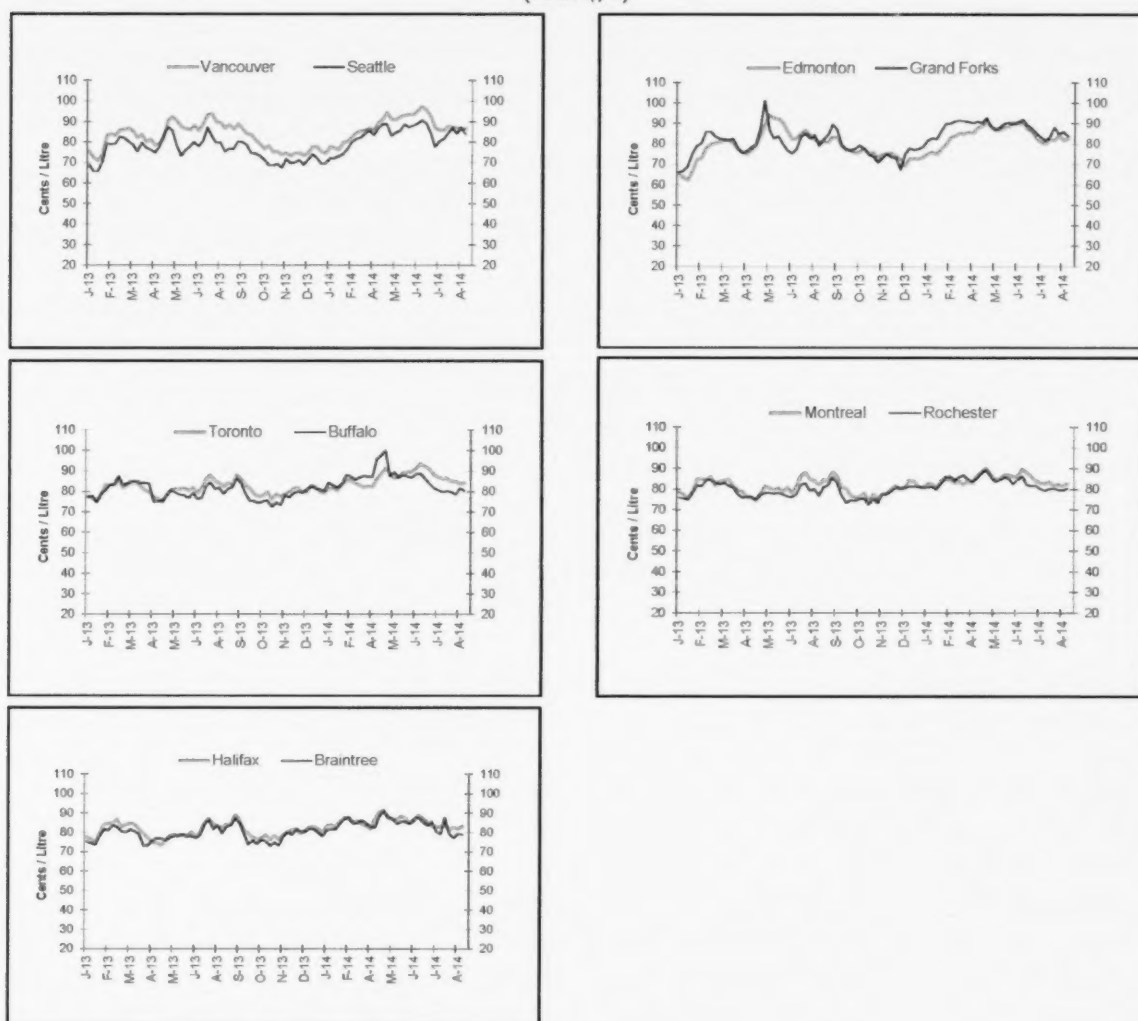
Wholesale gasoline prices for the **week ending August 28, 2014**, ranged from an increase of 1 cent per litre to a decrease of more than 3 cents per litre compared to the previous week.

In the eastern markets of Canada and the United States, wholesale gasoline prices registered an increase of 1 cent per litre compared to the previous week. Prices for the period ended in the 79 to 84 cent-per-litre range.

Western wholesale gasoline prices ended between 83 to 87 cents per litre, ranging from an increase of 1 cent per litre to a decrease of 3 cents per litre.

Overall, compared to the same period last year, prices ranged from an increase of 4 cents per litre to a decrease of nearly 9 cents per litre.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminal Prices for Selected Canadian and American Cities Ending August 28, 2014  
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





## Gasoline Refining and Marketing Margins

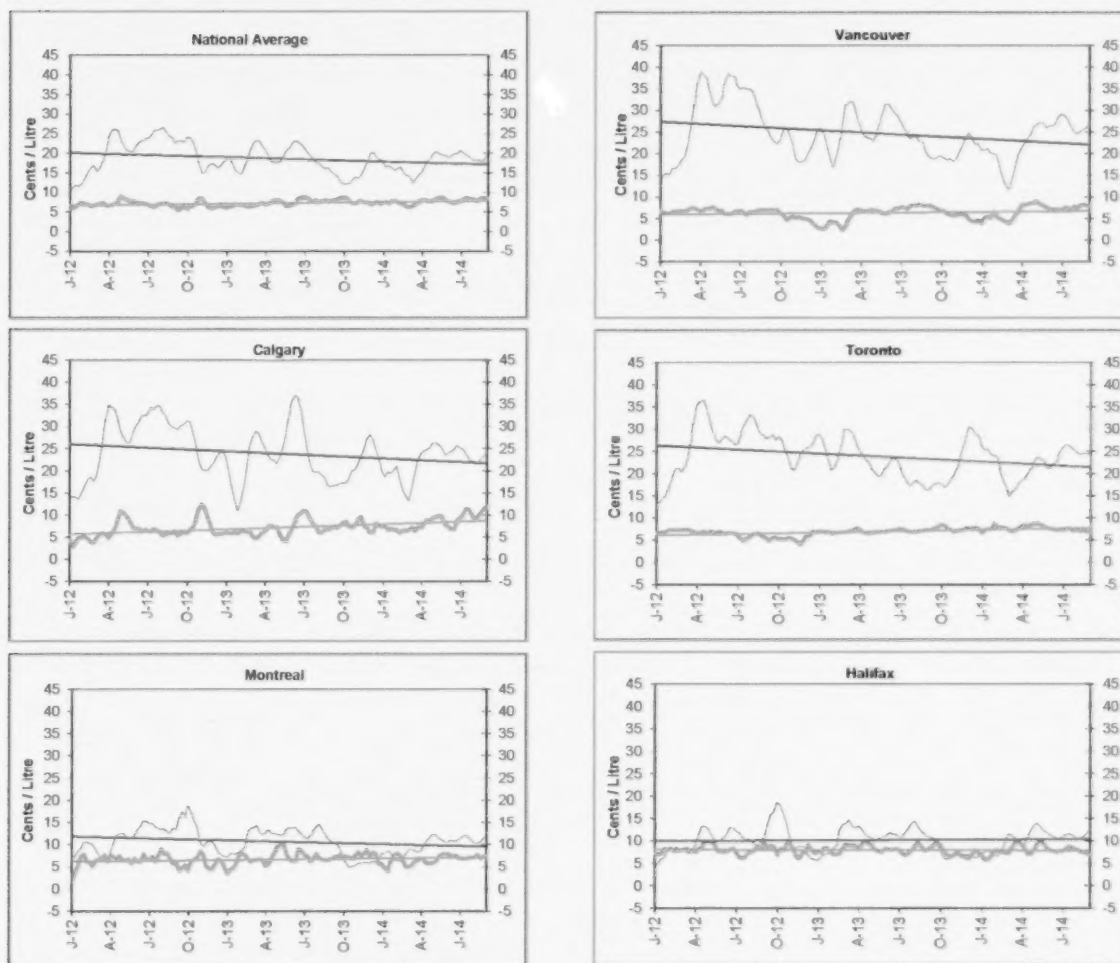
**Four-week rolling averages** are used for the gasoline refining and marketing margins. Figure 5 shows the trends for the period ending September 2, 2014.

National average gasoline margins ended the week at nearly 20 cents, 4 cents per litre higher than at the same period last year. The refining and marketing margins for gasoline refer to the difference between the cost of the crude oil and the wholesale price at which a

refiner can sell gasoline. The margin includes the costs associated with the refining of the product as well as a profit for the refiner.

Marketing margins hovered at 8 cents per litre and represent the difference between the wholesale and retail prices of gasoline. This margin pays for the costs associated with storing the gasoline until it is delivered, transporting it to the local service station, and operating the retail station.

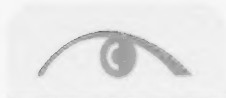
**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending September 2, 2014  
----- Refining Margin      ——— Marketing Margin



Source: NRCan







## Crude Oil Overview

### Overall Crude Oil Prices Trend Lower

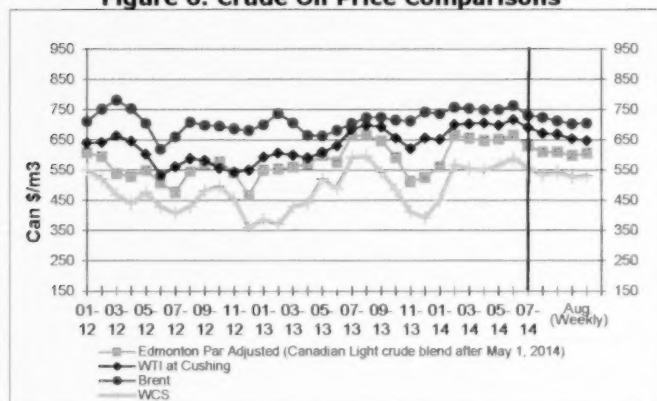
For the week ending **August 29, 2014**, prices for the three marker light crudes averaged between \$606/m<sup>3</sup> and \$704/m<sup>3</sup>, (US\$88 to US\$103 per barrel). Compared to the previous week, the price for Brent and the Canadian Light crudes increased by \$2/m<sup>3</sup> and \$8/m<sup>3</sup> (US\$0.55 to US\$1.43 per barrel), respectively, while WTI prices dropped \$6/m<sup>3</sup> (US\$0.59 per barrel).

Brent crude oil prices traded at a premium to WTI by a margin of \$57/m<sup>3</sup> (US\$8 per barrel). Western Canadian Select prices averaged \$531/m<sup>3</sup> (US\$77 per barrel), up \$6/m<sup>3</sup> (US\$1 per barrel) from the previous week.

While the Russia-Ukraine conflict caused upward pressure on Brent crude oil prices, the risk premium seems to be partly offset by increases in Libyan oil exports and the reduced risk for Iraqi oil exports.

High U.S. crude oil inventory levels and lower refinery demand helped moderate the rise in WTI crude oil prices, which in turn put downward pressure on refined product prices.

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-08-29		Change From:			
			Previous Week		Last Year	
	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl
Canadian Light	606.24	88.37	+8.42	+1.43	-94.14	-17.50
WTI	647.08	94.32	-5.56	-0.59	-69.32	-13.98
Brent	704.08	102.62	+2.20	+0.55	-51.21	-11.55
WCS	531.40	77.46	+5.60	+0.99	-25.83	-6.78

Source: NRCan

### Canada's Energy Policy

Canada's energy policy is guided by a series of principles, agreements and accords. The main principles of Canada's energy policy are as follows.

**Market orientation:** Markets are the most effective way of determining supply, demand, prices and trade, while ensuring an efficient, competitive and innovative energy system that is responsive to Canada's energy needs.

Respect for jurisdictional authority and the role of the provinces: Provincial governments are the direct managers of most of Canada's resources and have responsibilities for resource management within their borders.

Where necessary, targeted intervention occurs in the market process to achieve specific policy objectives through regulation or other means. These policy objectives include issues of health and safety (e.g., pipeline regulation) and environmental sustainability.

Over time, numerous federal decisions have also contributed to our energy policy, such as the creation of the National Energy Board; the Canadian Nuclear Safety Commission; Atomic Energy of Canada Limited; and sustained funding of the Program on Energy Research and Development.

Source: Natural Resources Canada, <http://www.nrcan.gc.ca/energy/energy-resources/15903>

